

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

| | | |
|---|---|----------------|
| Charmar Water Company | : | |
| | : | |
| Proposed general increase in water rates | : | 11-0561 |
| (Tariffs filed June 29, 2011) | : | |
| | : | |
| Cherry Hill Water Company | : | |
| | : | 11-0562 |
| Proposed general increase in water rates | : | |
| (Tariffs filed June 29, 2011) | : | |
| | : | |
| Clarendon Water Company | : | |
| | : | 11-0563 |
| Proposed general increase in water rates | : | |
| (Tariffs filed June 29, 2011) | : | |
| | : | |
| Killarney Water Company- | : | |
| | : | 11-0564 |
| Proposed general increase in water rates | : | |
| (Tariffs filed June 29, 2011) | : | |
| | : | |
| Ferson Creek Utilities Company | : | |
| | : | |
| Proposed General Increase in Water and | : | 11-0565 |
| Sewer Rates | : | |
| (Tariffs filed June 29, 2011) | : | |
| | : | |
| Harbor Ridge Utilities, Inc. | : | |
| | : | 11-0566 |
| Proposed General Increase in Water and | : | (Cons.) |
| Sewer Rates | : | |
| (Tariffs filed June 29, 2011) | : | |

PROPOSED ORDER

April 6, 2012

| | | |
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PROPOSED ORDER

By the Commission:

I. Procedural History

On June 29, 2011, Charmar Water Company ("Charmar"), Cherry Hill Water Company ("Cherry Hill"), Clarendon Water Company ("Clarendon"), Killarney Water Company ("Killarney"), Ferson Creek Utilities Company ("Ferson") and Harbor Ridge Utilities, Inc. ("Harbor") separately filed revised tariff sheets, hereinafter referred to as its "Filed Rate Schedule Sheets," in which it proposed a general increase in water and sewer rates to be effective August 15, 2011. Charmar's tariff sheets were identified as Ill. C. C. No. 4, Sixth Revised Sheet No. 1, and Ill. C. C. No. 4, Second Revised Sheet No. 1.1. Cherry Hill's tariff sheets were identified as Ill. C. C. No. 1, Thirteenth Revised Sheet No. 1, and Ill. C. C. No. 1, Third Revised Sheet No. 1.1. Clarendon's tariff sheets were identified as Ill. C. C. No. 3, Tenth Revised Sheet No. 1, and Ill. C. C. No. 3, Original Sheet No. 1.1. Killarney's tariff sheets were identified as Ill. C. C. No. 3, Ninth Revised Sheet No. 1, and Ill. C. C. No. 3, Original Sheet No. 1.1. Ferson's tariff sheets were identified as Ill. C. C. No. 1, Fourth Revised Sheet No. 1, and Ill. C. C. No. 1, Original Sheet No. 1.1. Harbor's tariff sheets were identified as Ill. C. C. No. 1 (sewer), Tenth Revised Sheet No. 1; Ill. C. C. No. 1 (water), Eighth Revised Sheet No. 1, and Ill. C. C. No. 1, Original Sheet No. 1.1.

On August 2, 2011, the Illinois Commerce Commission ("ICC" or the "Commission") entered Orders suspending the Filed Rate Schedule Sheets to and including November 27, 2011. On September 1, 2011, the Administrative Law Judge ("ALJ") granted a motion to consolidate the cases. On November 2, 2011, the Commission resuspended the Filed Rate Schedule Sheets to and including May 27, 2012.

Notices of the proposed increase in water and sewer rates were posted and published in a newspaper of general circulation throughout each of the Companies' service areas in accordance with the requirements of Section 9-201 of the Public Utilities Act ("Act") and with the provisions of 83 Ill. Adm. Code Sec. 255. Charmar, Cherry Hill, Clarendon, Killarney, Ferson and Harbor (collectively, the "Companies" or the "Utilities") also sent notice of the filing to customers in their first billings after the filing.

Leave to Intervene was granted to the Antioch Golf Club Community Association ("the Association") and the Illinois Attorney General ("Attorney General" or "AG") (collectively the "Intervenors").

Pursuant to notice as required by the law and the rules and regulations of the Commission, an evidentiary hearing was held before a duly authorized Administrative Law Judge (~~"ALJ"~~) of the Commission at its offices in Chicago, Illinois, on January 25, and January 26, 2012. At the evidentiary hearing, the Utilities, Staff of the Commission ("Staff"), and the Attorney General ("AG") appeared and presented testimony.

The Companies presented the following witnesses: Bruce Haas, Regional Director of Operations for the Midwest Region of Utilities, Inc. ("UI") and its subsidiaries, and Lena Georgiev, Regulatory Manager for the Atlantic and Midwest Regions of UI and its subsidiaries.

The following witnesses testified on behalf of Staff: Phillip Rukosuev and, Cheri Harden and Christopher Boggs of the Rates Department, Financial Analysis Division; William R. Johnson, Thomas Q. Smith, William H. Atwood Jr. and Jonathan M. Sperry of the Water Department, Financial Analysis Division; Theresa Ebrey and Dianna Hathhorn of the Accounting Department, Financial Analysis Division; David Sackett of the Policy Program, Energy Division; and Janis Freetly of the Finance Department, Financial Analysis Division. The Attorney General offered the testimony of Michael L. Brosch, a consultant and accountant.

In its surrebuttal testimony, the Companies agreed to Staff's recommended revenue requirement as well as the accounting adjustments recommended in the direct and rebuttal testimony of the Staff witnesses. Staff and the Companies agree that and the water and sewer rates identified in the Companies' Surrebuttal surrebuttal testimony should be adopted by the Commission. The record was subsequently marked "Heard and Taken" on April 5, 2012.

On April 5, 2012, the ALJ issued a Proposed Order in this matter. Briefs on Exceptions were filed by all of the parties on _____, 2012. Reply Briefs on Exceptions were filed by all of the parties on _____, 2012.

II. The Companies' Service Areas and the Nature of Operations

The Companies are wholly-owned subsidiaries of UI, which owns and operates water and/or wastewater systems throughout the United States. Water Service Corporation ("WSC") manages the operations for all of UI's water and sewer systems. WSC provides management, administration, engineering, accounting, billing, data processing, and regulatory services for the utility systems. WSC's expenses are assigned directly to an operating utility, or they are allocated to one or more of the various operating utilities, pursuant to a formula that has been approved by this Commission.

Charmar provides water service to approximately 53 customers in Lake County. Charmar's current water rate structure was approved pursuant to an Order, dated April 7, 2004, in Docket No. 03-0400. Cherry Hill provides water service to approximately 259 customers in Will County. Cherry Hill's current water rate structure was approved pursuant to an Order, dated April 7, 2004, in Docket No. 03-0401. Clarendon provides water service to approximately 363 customers in DuPage County. Clarendon's current water rate structure was approved pursuant to an Order, dated November 21, 1997 August 26, 1998, in Docket No. 97-0664. Killarney provides water service to approximately 346 customers in McHenry County. Killarney's current water rate structure was approved pursuant to an Order, dated May 243, 1995, in Docket No. 94-0329. Ferson provides water and sewer service to approximately 375 customers in Kane County. Ferson's current water and sewer rate structure was approved pursuant

to an Order, dated June 21, 1984, in Docket No. 83-0432. Harbor provides water and sewer service to approximately 320 customers in Lake County. Harbor's current water and sewer rate structure was approved pursuant to an Order, dated October 23, 1995, in Docket No. 94-0512.

III. Test Year

The Companies' filings are based on a historical test year ending September 30, 2010, with *pro forma* adjustments for known and measurable changes. Neither Staff nor Intervenors challenged the reasonableness of using the test year ending September 30, 2010 as a historical test year.

The Commission concludes that the test year ending September 30, 2010, with adjustments for known and measurable changes, is appropriate for the purposes of this proceeding.

IV. Rate Base

In its testimony, the Companies presented evidence showing its original cost rate bases after *pro forma* adjustments for the test year ending September 30, 2010. Staff proposed various adjustments to the Companies' rate bases including adjustments to utility plant, accumulated depreciation and working capital. The Companies accepted all of the Staff's recommended rate base adjustments. The Attorney General, however, seeks additional adjustments.

A. Uncontested Issues

1. Plant Retirements

Staff witness ~~Ebery~~-Ebrey proposed adjustments for Cherry Hill, Clarendon, Killarney, Ferson Water and Ferson Sewer to reflect retirement of plant and annual depreciation expense related to retired plant that had not yet been removed from the utilities' books. The Companies accepted these adjustments. These adjustments are reasonable and are hereby approved by the Commission.

2. Accumulated Depreciation

Staff witness Ebrey proposed adjustments to remove accumulated depreciation on previously retired plant. (Staff Ex. 2.0, pp. 13-15.) The Company accepted these adjustments. (Company Ex. 3.0, p. 7.) These adjustments are reasonable and are hereby approved by the Commission.

3. Contributions in Aid of Construction (“CIAC”)

Staff witness Ebrey proposed an adjustment to remove the effects of the amortization on CIAC which was not removed from the books of Harbor Sewer per the Order in Docket No. 94-0512. (Staff Ex. 2.0, p. 16.) The Company accepted this adjustment. (Company Ex. 3.0, p. 9.) This adjustment is reasonable and is hereby approved by the Commission.

4. Pro Forma Plant Additions

Staff witness Ebrey proposed adjustments to update the pro forma plant additions for Cherry Hill, Killarney, and Harbor Water utilities based on responses to discovery, including revisions for Depreciation Expense and Accumulated Depreciation. (Staff Ex. 2.0, p. 16.) The Company accepted these adjustments. (Company Ex. 3.0, p. 8.) These adjustments are reasonable and are hereby approved by the Commission.

5. Reclassification of Plant in Service

Staff witness Ebrey proposed adjustments to reclassify plant between the water and sewer utilities for Ferson and Harbor based on responses to discovery (Staff Ex. 2.0, pp. 16-17.) The Company accepted these adjustments and also reflected the accumulated depreciation effect of the reclassification. (Company Ex. 3.0, p. 8.) Staff accepted that additional adjustment. (Staff Ex. 10.0, p. 2.) → These adjustments are reasonable and are hereby approved by the Commission.

6. Accumulated Deferred Income Taxes

Staff witness Ebrey proposed adjustments to Accumulated Deferred Income Taxes resulting from the changes to depreciation expense resulting from other Staff adjustments. (Staff Ex. 2.0, p. 17.) The Company accepted these adjustments. (Co. Ex. 3.0, p. 9.)

These adjustments are reasonable and are hereby approved by the Commission.

7. Abandoned Charmar Plant

Staff witness Ebrey made the following proposals regarding Charmar Plant that was abandoned: 1) remove land easements and legal fees from plant in service that are associated with the abandoned plant; 2) correct the accumulated depreciation as well as the “extraordinary depreciation” associated with the abandoned plant; and 3) an amortization period of 15 years rather than 8.13 years as proposed by Charmar for

recovery of the abandoned plant costs. Charmar accepted Staff's adjustments in surrebuttal testimony.

Staff proposed adjustments to correct ~~the~~ Charmar's calculation of accumulated depreciation and its proposed "extraordinary depreciation" associated with the abandoned plant as well as to address concerns related to: 1) estimated salvage and tax savings related to the property that was no longer being used that should be considered; 2) certain legal fees that were inappropriately included in plant accounts to be depreciated that should be removed; and 3) errors in the calculations that should be corrected. (Staff Ex. 2.0, pp. 7-10 and Staff Ex. 10.0, pp. 5-8.) ~~The~~ Charmar proposed an alternative methodology (Staff Ex. 10.0, p. 7) to Staff's proposals for the computations of accumulated depreciation, which Staff accepted. (*Id.*, p. 8.) The Company accepted Staff's adjustment for the Abandoned Charmar plant in surrebuttal testimony.

Staff proposed a 15-year amortization period for the costs of undepreciated plant (rather than the 8.13 years proposed by Charmar). (Staff Ex. ~~11~~-2.0, pp. 10-11.) Charmar accepted this proposal. (Staff Ex. 10.0, p. 8.) Staff witness Ebrey proposed that the retirement of the water treatment plant for Charmar be recorded according to the Uniform System of Accounts Accounting Instruction 27(H) for the following reasons. First, the retirement was an unexpected retirement of a major unit of property, representing 37.12% of Charmar's proposed rate base. Second, this is an unexpected early retirement because over two-thirds of the treatment plant has been in service less than 10 years. Third, the recording of the retirement by crediting "plant in service" and debiting "accumulated depreciation" by the original cost of the investment being retired would cause a serious depletion in the depreciation reserve. If the cost of the treatment plant was debited to the depreciation reserve for the full cost it would cause that account's balance to become a debit balance twice the current credit balance. Thus, such an entry would cause a serious depletion to the reserve account. (Staff Ex. 2.0, pp. 11-13.) The Company accepted Staff's proposal for the accounting treatment of the retirement. (Company Ex. 3.0, p. 7.)

These adjustments are reasonable and are hereby approved by the Commission.

8. Depreciation Rates

With respect to depreciation rates, Clarendon, Killarney, Ferson and Harbor proposed moving from composite water and sewer depreciation rates to separate water and sewer depreciation rates for each primary account. Staff witness Johnson proposed some adjustments to the Companies' proposed water and sewer depreciation rates shown in ICC Staff Ex. 6.0, Schedules 6.01 CWC, 6.01 KWC, 6.01 FCUC-W, 6.01 HRUI-W, 6.01 FCUC-S and 6.01 HRUI-S. The Companies agreed with Staff's proposed depreciation rate adjustments. These adjustments are reasonable and are hereby approved by the Commission.

B. Contested Issues

1. Cash Working Capital Adjustment

Staff's Position

For each utility, Staff witness Hathhorn proposed adjustments to working capital for the removal of real estate taxes and to incorporate the effects of other Staff-proposed adjustments to operating expenses. (Staff Ex. 1.0, pp. 7-8 and Sch. 1.08.) Staff accepted the Companies' calculations of its sewer and/or water working capital requirements using the 45-day or 1/8th formula method based on the operating expenses presented in its filings.

AG's Position

Rather than directly address AG witness Michael Brosch's recommendation that the Commission reject the Companies' requested cash working capital ("CWC") allowance as not supported by a valid study or analysis, the Companies and Staff misrepresent the People's position. The question is not whether the Companies should perform a costly lead-lag study to determine the proper cash working capital adjustments. Rather, the issue is whether it should automatically receive a CWC allowance based on the faulty 45-day method and in the presence of evidence that such an allowance is necessary. The AG simply asserts that the burden of proof is on the Companies to show why it should receive an additional revenue adjustment for CWC at all—and how much of an adjustment, if any, it deserves. The 45-day method of calculating CWC used by the Companies is flawed, outdated and inapplicable to utilities operating on such a small scale as the Companies here. Utilities bear the burden of proof to justify its costs, 220 ILCS 5/9-201 and the Commission should never increase rate base and thereby increase rates, for CWC by default or based on an assumed cost. It certainly should not do so in a case such as this, in which these small monopoly Utilities are already asking for enormous rate base increases to be borne by very few consumers. Adding a phantom CWC revenue "gift" on top of those massive increases simply adds insult to injury for consumers and unnecessarily increases the Utilities' revenue, without basis.

Contrary to the arguments of the Companies and the Staff, the AG does not recommend that the Companies here should conduct a lead-lag study. AG witness Mr. Brosch testified that although a lead-lag study would effectively explain the Companies' CWC requirements; it would probably be cost-prohibitive for these small Companies to conduct such a study. AG Ex. 2.0 at 12. This does not mean, however, that the Companies should then be allowed to boost its revenue requirements with additional profits based on the faulty and out-dated 45-day CWC method. AG witness Mr. Brosch described the 45-day CWC formula as "based upon an incorrect general assumption

that it takes the utility 45 days longer to collect its revenues than it can effectively delay paying its expenses.” AG Ex. 1.0 at 18. Although this may have been true with respect to the specific utility in the case in which a federal commission first adopted the method in 1929, it simply does not apply to modern utilities. *Id.*

“The lead-lag study preferred by the Attorney General would be cost-prohibitive based upon the speculative revenue savings it might generate versus the increased cost to rate case expense.” (Companies Initial Br. At 8). Mr. Brosch described the purpose of the CWC adjustment and explained that a modern utility would only have a positive CWC amount based on a lag time between revenue and expenditures:

if the utility paid its employees and vendors instantly ~~on~~ every day they provide labor, services and materials to the utility, causing there to be no delay in the outflow of cash to fund operating expenses. We know, however, that vendors and employees are not paid immediately at the end of each day. We also know that payroll taxes and income taxes are payable only after the pay periods and subject to statutory dates that yield considerable cash flow retention by the utility. (AG Ex. 1.0 at 19). Mr. Brosch further explained that most modern utilities actually have a negative CWC amount (meaning they receive revenues before they must pay their debts, in the aggregate), making the 45-day method—which is incapable of returning a negative amount, as it operates by simply dividing yearly expenses by eight ($45/365 = 1/8$)—even less reasonable. (AG Ex. 2.0 at 12). He also noted that the 45-day method “has continued to be used and abused in the regulation of mostly small utilities.” (AG Ex 1.0 at 18).

Thus the Commission should adopt a presumption against awarding CWC to the Companies, unless it satisfies its burden of proof by an analysis other than the erroneous 45-day method.

Mr. Brosch did provide an alternative approach for the Companies to determine its CWC amounts: the balance sheet method, which involves the comparison of a company’s current assets and liabilities, preferably done repeatedly over time. He applied data from the Companies books to the balance sheet method at AG Ex. 2.0 at 19-20 and determined that the Companies do need investor funds for ongoing operations because its customers provide sufficient cash flow. Yet the Companies rejected this method as well, noting that “[n]one of the Companies has a separate balance sheet since retained earnings are booked on the parent level. In addition, intercompany exchange accounts would not allow for an accurate liability account by individual company.” (Companies Initial Br. at 8). The Commission should reject this attempt to avoid providing a factual basis for a claimed CWC adjustment. If the Companies unnecessarily complicated and inefficient corporate structure prevents it from analyzing its CWC needs, the Commission should not presume such a cost, to the detriment of consumers. If the Companies do not meet its burden to demonstrate that it actually needs a CWC allowance, the Commission should not allow a CWC cost in rates.

Finally, the Companies argue that the Commission has allowed use of the 45-day CWC method in past cases, but it fails to cite to any case in which a party challenged

the use of the method, as the AG does here. Even if the Commission had occasionally allowed use of the flawed 45-day method in the past for calculating CWC amounts, it should be especially vigilant in guarding against granting such a revenue “gift” to the tiny Companies here. In this case, unjustified CWC amounts would be piled on top of the huge rate base increases the Companies have requested, creating an even greater burden to be borne by the Companies’ very small groups of consumers. Consumers should not be asked to provide a return on CWC in the absence of specific evidence supporting the need for investor-supplied capital to cover a real—as opposed to an assumed—revenue lag. The AG requests that the Commission remove CWC from rate base and not charge ratepayers for these non-existent capital costs.

Companies’ Position

The Companies pointed out that a lead-lag study would be cost-prohibitive based upon the revenues it would expect to generate versus the increased cost to rate case expense. According to the Companies, the AG witness attempted to discredit the formula approach by selectively discussing only a few isolated expenses that fit his speculative belief that a full-blown lead-lag study might result in a zero or negative cash working capital allowance. Without an excessively expensive lead-lag study that looks at all expenses, the Companies argue it is impossible to show that the estimates produced by the formula method are unreasonable. Staff pointed out that the revenue requirement impact of the Company’s proposal in this case is very small; for example, for Charmar it is less than 1% of the revenue requirement recommended by Staff and the Companies. (*Id.*, at 276-277.)

The 45 day or 1/8th formula method has been accepted by the Commission for small water and wastewater utilities. See *Sundale Utilities, Inc.*, Ill. C. C. Doc. 08-0549 (Apr. 22, 2009); *New Landing Utility, Inc.*, Ill. C. C. Doc. 04-0610 (Jul. 19, 2005). The method has also been approved for a small gas and electric utility with about 7,000 customers. *Mt. Carmel Public Utility Company*, Ill. C. C. 07-0357 (Mar. 12, 2008). The lead-lag study preferred by the Attorney General would be cost-prohibitive based upon the speculative revenue savings it might generate versus the increased cost to rate case expense.

The Companies agreed that Staff’s adjustments should be included and reflected in the operating expenses approved by the Commission. (Co. Ex. 3.0, p. 2.)

Commission Analysis and Conclusion

The Commission finds the formula method provides a reasonable estimate of the cash working capital for the Companies and the cash working capital requirements as adjusted by Staff should be included in rate base.

C. Commission Conclusion on Rate Bases

The Commission finds that Staff's adjustments to the Companies' rate bases are supported by the evidence, reasonable and should be adopted. Upon giving effect to these adjustments, the Commission concludes that the rate bases approved for purposes of this proceeding are: \$295,125 for Charmar, \$498,213 for Cherry Hill, \$653,767 for Clarendon, \$603,588 for Killarney, \$632,085 (water) and \$631,969 (sewer) for Ferson, and \$451,925 (water) and \$65,159 (sewer) for Harbor. These rate bases may be summarized as follows:

Charmar Approved Rate Base

| | |
|---|-------------------|
| | <u>Water</u> |
| Gross Plant in Service | \$332,986 |
| Less: Accumulated Depreciation and Amortization | <u>(\$10,003)</u> |
| Net Plant | \$332,983 |
| Additions to Rate Base | |
| Working Capital | \$5,180 |
| ADIT Regulatory Asset | \$0 |
| Adjustment to Rate Base Allocations | \$108 |
| Deductions from Rate Base | |
| Contributions in Aid of Construction | (\$836) |
| Accumulated Deferred Income Taxes | (\$32,310) |
| Customer Deposits | (\$0) |
| Rate Base | <u>\$295,125</u> |

Cherry Hill Approved Rate Base

| | |
|---|-------------------|
| | <u>Water</u> |
| Gross Plant in Service | \$411,133 |
| Less: Accumulated Depreciation and Amortization | <u>(\$77,986)</u> |
| Net Plant | \$333,147 |
| Additions to Rate Base | |
| Working Capital | \$9,108 |
| Net Pro Forma Plant | \$180,000 |
| Adjustments to Rate Base Allocations | \$527 |
| Deductions from Rate Base | |
| Contributions in Aid of Construction | (\$2,543) |
| Accumulated Deferred Income Taxes | (\$22,026) |

Customer Deposits (\$0)

Rate Base \$498,213

Clarendon Approved Rate Base

| | |
|---|--------------|
| | <u>Water</u> |
| Gross Plant in Service | \$750,671 |
| Less: Accumulated Depreciation and Amortization | <u>\$210</u> |
| Net Plant | \$750,881 |

| | |
|------------------------|----------|
| Additions to Rate Base | |
| Working Capital | \$15,625 |
| ADIT Regulatory Asset | \$0 |

| | |
|--------------------------------------|-------|
| Adjustments to Rate Base Allocations | \$738 |
|--------------------------------------|-------|

| | |
|--------------------------------------|------------|
| Deductions from Rate Base | |
| Contributions in Aid of Construction | (\$28,519) |
| Accumulated Deferred Income Taxes | (\$84,958) |
| Customer Deposits | (\$0) |

Rate Base \$653,767

Killarney Approved Rate Base

| | |
|---|--------------------|
| | <u>Water</u> |
| Gross Plant in Service | \$633,780 |
| Less: Accumulated Depreciation and Amortization | <u>(\$161,743)</u> |
| Net Plant | \$472,037 |

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|-------------------------------------|----------|
| Additions to Rate Base | |
| Working Capital | \$11,142 |
| Adjustment to Rate Base Allocations | \$705 |

| | |
|---------------------|-----------|
| Net Pro forma plant | \$170,000 |
|---------------------|-----------|

| | |
|--------------------------------------|------------|
| Deductions from Rate Base | |
| Contributions in Aid of Construction | \$51 |
| Accumulated Deferred Income Taxes | (\$50,347) |

Rate Base \$603,588

Ferson Approved Rate Base

| | <u>Water</u> | <u>Sewer</u> |
|---|--------------------|--------------------|
| Gross Plant in Service | \$1,383,047 | \$1,930,781 |
| Less: Accumulated Depreciation and Amortization | <u>(\$342,354)</u> | <u>(\$685,118)</u> |
| Net Plant | \$1,040,693 | \$1,245,663 |
| Additions to Rate Base | | |
| Working Capital | \$9,410 | \$15,320 |
| ADIT Regulatory Asset | \$0 | \$0 |
| Adjustments to Rate Base Allocations | \$764 | \$748 |
| Deductions from Rate Base | | |
| Contributions in Aid of Construction | (\$339,117) | (\$549,453) |
| Accumulated Deferred Income Taxes | (\$79,581) | (\$80,226) |
| Customer Deposits | (\$84) | (\$83) |
| Rate Base | <u>\$632,085</u> | <u>\$631,969</u> |

Harbor Approved Rate Base

| | <u>Water</u> | <u>Sewer</u> |
|---|--------------------|--------------------|
| Gross Plant in Service | \$963,019 | \$181,511 |
| Less: Accumulated Depreciation and Amortization | <u>(\$252,644)</u> | <u>(\$158,030)</u> |
| Net Plant | \$710,375 | \$23,481 |
| Additions to Rate Base | | |
| Working Capital | \$7,797 | \$6,145 |
| ADIT Regulatory Asset | \$0 | \$0 \$0 |
| Net Pro forma Plant | \$132,000 | \$0 |
| Adjustment to Rate Base Allocations | \$650 | \$644 |
| Deductions from Rate Base | | |
| Contributions in Aid of Construction | (\$377,112) | \$56,433 |
| Accumulated Deferred Income Taxes | (\$21,785) | (\$21,544) |
| Rate Base | <u>\$451,925</u> | <u>\$65,159</u> |

V. Operating Revenues, Expenses, and Income

The Companies presented its pro forma operating revenues, expenses and income for the test year ended September 30, 2010. Staff proposed various adjustments to the Companies' pro forma operating statements. In addition, Staff made recommendations regarding tariff language changes and additional information to be provided by the Companies and UI's Illinois regulated utilities in future rate case direct testimony. Staff's proposed adjustments and recommendations are summarized below ~~and reflected in Appendices A, B, C, _____ and ____~~. The Companies accepted all of Staff's recommendations and adjustments.

The Attorney General, however, recommended additional adjustments.

A. Uncontested Issues

1. Add-On Tax Adjustment

Staff witness Hathhorn proposed adjustments to remove the Gross Revenue tax (also known as the Public Utility Fund tax) from the Companies' revenue requirements because it is not an actual operating expense of the utility and should not be included in tariffed rates. Staff recommended that the Companies collect the tax as a separate charge on customers' bills when the rates approved in this docket go into effect. Ms. Hathhorn recommended the Companies add the following language:

ANNUAL GROSS REVENUE TAX RECOVERY CHARGE

Section 9-222 of "The Public Utilities Act," as amended, authorizes a utility to recover from its Customers its liabilities to the State of Illinois for Public Utility Annual Gross Revenue Tax imposed by Section 2-202 of "The Public Utilities Act," as amended. Pursuant to Section 9-222, the Company shall charge an Additional Charge for the Public Utility Annual Gross Revenue Tax equal to 0.1% of all billings under this rate schedule except for (a) this Additional charge for Public Utility Annual Gross Revenue Tax, (b) the Additional Charge for any Municipal Utility Tax, and (c) any other billings and billing items excluded from the base of the Public Utility Annual Gross Revenue Tax.

The Companies agreed with Staff's adjustment and recommended tariff language.

This adjustment and recommendation are reasonable and are hereby approved by the Commission.

2. CPI Increases

Staff witness Hathorn proposed an adjustment to disallow increases to test year expenses that are based on an inflation factor. Ms. Hathorn explained that pro forma adjustments to a historical test year should be based upon known and measurable changes. Inflation factors are not known and measurable. Accordingly, the Companies' pro forma adjustments for inflation should be disallowed pursuant to 83 Ill. Adm. Code 287.40 because the adjustments are based on the Consumer Price Index, which does not represent a specific study of known and measurable changes to the test year operating expenses. The Companies accepted Staff's adjustment.

This adjustment is reasonable and is hereby approved by the Commission.

3. Pro Forma Salaries and Benefits

For each utility, Staff witness Hathorn proposed adjustments to increase operating expenses to reflect the known and measurable costs of five additional personnel hired at Water Service Corporation ("WSC") hired after the WSC allocations of salaries and benefits to the test year were prepared. The Companies did not oppose the adjustments.

This adjustment is reasonable and is hereby approved by the Commission.

4. Legal Expense Normalization

For Charmor only, Staff witness Hathorn proposed an adjustment to decrease Charmor's legal expenses to reflect a more reasonable level expected to be incurred on an on-going basis. ~~Chairman Charmor~~ did not oppose the adjustment.

This adjustment is reasonable and is hereby approved by the Commission.

5. Unaccounted-for-Water

For Killarney only, Staff witness Hathorn proposed an adjustment to decrease Killarney's maintenance expenses because the unaccounted-for water percentage exceeded the maximum as defined in Killarney's tariff. Killarney did not oppose the adjustments.

This adjustment is reasonable and is hereby approved by the Commission.

6. Uncollectibles Expense

For Harbor only, Staff witness Hathhorn proposed adjustments to decrease Harbor's uncollectibles expense at present rates to reflect the amounts at more reasonable levels expected to be incurred on an on-going basis. Harbor did not oppose the adjustments.

This adjustment is reasonable and is hereby approved by the Commission.

B. Contested Issues

1. Rate Case Expense

Staff's Position

Staff witness Hathhorn proposed adjustments to operating expenses for each utility to: (1) increase the amortization period for rate case expense from three years to five years since it is a more reasonable estimate of the time period that rates from this proceeding would be in effect for these Companies; and (2) adjust the estimated travel expenses to more reasonable levels consistent with recent rate cases of affiliates of the Companies. In rebuttal testimony, the Companies updated its rate case expense estimate and revised proposed travel costs per Company in rate case expense. Staff agreed the updates provide a better estimate of the rate case expenses expected to be incurred than the costs in the Companies' direct case and that the Companies' proposed reduced travel costs for rate case expense were a reasonable amount expected to be incurred for Company travel to the evidentiary hearing.

Staff's witness further testified that Section 9-229 of the Act requires the Commission to expressly address in its final order the justness and reasonableness of any amount expended by a public utility to compensate attorneys or technical experts to prepare and litigate a general rate case filing. Therefore, Staff recommended that the Companies provide several of its data request responses for the record in these cases. The Companies agreed and provided exhibits in support of the justness and reasonableness of their rate case expense request. Based upon the evidence submitted by the Companies and reviewed by Staff, Staff further recommended that the Commission find the amounts of compensation for attorneys and technical experts to prepare and litigate this proceeding, as adjusted by Staff, are just and reasonable.

AG's Position

The AG pointed out that ordinarily, a utility will have an expense for employees or a "labor" expense to cover the cost of employees who provide operational, financial, regulatory or other services for the utility. None of the utilities in these dockets has any direct employees, however. Tr. at 48. Instead, each utility includes an allocated labor expense from ~~the Water Services Corporation (WSC), which is also a wholly owned subsidiary of the utilities' parent, Utilities, Inc.~~ The allocation is based on the number of customers for each system, or "equivalent residential connection," compared to the number of customers in all of the UI regulated utilities. Tr. at 74.

According to the AG, the labor cost allocated to each utility is relatively small. However, each utility has also included an allegedly "direct allocation" for rate case services provided by WSC employees. As shown by the following table, the AG showed that this "direct" allocation of WSC employee costs dwarfs the direct allocation, and produces a labor cost that is grossly out of proportion to the size of the utility that is expected to cover the labor cost.

Table 4: Internal WSC Labor Cost to Rate Case Internal Labor

| Utility (a) | Number of Employees Customers (b) | Internal Labor Cost Allocation (c) | WSC Rate Case Captive Deduction (d) | Rate Case Internal (WSC) Labor Cost (e) |
|-----------------|--|---|---|--|
| Charmar | 53 | \$4,033 | \$283 | \$79,339 |
| Cherry Hill | 259 | \$23,944 | \$1,409 | \$76,339 |
| Clarendon | 363 | \$35,108 | \$1,939 | \$77,109 |
| Killarney | 346 | \$31,169 | \$2,405 | \$76,823 |
| Ferson Creek | 378 (water) 370 (sewer) | \$35,591 W \$35,852 S | \$1,988 \$1,988 | \$38,682 \$38,682 |
| Harbor Ridge | 319 (water) 316 (sewer) | \$22,114 W \$25,722 S | \$1,977 \$1,958 | \$40,195 \$40,195 |
| TOTAL | | \$213,533 | \$13,947 | \$537,826 |

Sources: Co. Ex. 3.1, page 8; Ex. 2.4 (w/p[b-2]); Cross Ex. 2.

The AG asks the Commission to reject this allocation of internal labor for rate case expense shown in column (e) to these small utility systems and find that it is unreasonable and inconsistent with the treatment of this expense by other Illinois utilities.

AG witness Mr. Brosch testified that the "inclusion of labor costs for Company employees is unusual and creates a problem of over-recovery of labor costs if approved

by the Commission. The typical recovery of rate case expenses is limited to non-labor costs because of these problems.” AG Ex. 1.0 at 23. In response to an AG data request, the Company admitted that it allocates all of the WSC labor cost to the operating utilities and that no additional employees are hired to handle rate cases. AG Ex. 1.0 at 23. In light of the fact that no additional employees are hired to handle rate cases, the People assert that it is inconceivable and unreasonable to charge ratepayers more than twice as much for internal, WSC labor for rate case expense than these systems pay for all other WSC personnel costs (compare \$213,533 to \$537,826). A more appropriate treatment of internal rate case labor would be to allow one allocation of rate case expense that is representative across the system, which the company has identified in workpapers as \$13,947. This “adds back” the “cap time” rate case deduction the utilities proposed to cover rate case expenses elsewhere in their system. AG Exhibit 2.4 shows the adjustments to test year expenses after the rate case “cap time” is included in the test year. This is responsive to utility witness Georgiev’s concern that it is inequitable to remove all rate case expense. AG Ex. 2.0 at 24 (lines 464-477).

The AG further pointed out that combining outside counsel and expert charge with the \$537,826 inside or “internal” rate case expense results in asking 1,718 customers to pay \$1,235,763 for rate case expense. This is an excessive amount for such a small number of customers, and is not justified in the record. The outside counsel and expert fees are identified by invoices, but the internal labor costs are unreasonably high for the nature of the case, including the consolidation of six systems, the use of only two witnesses (Ms. Georgiev adopted Mr. Neyzelman’s testimony and Mr. Haas filed one piece of testimony for each system) and essentially form direct testimony for each system. As Mr. Brosch explained and as demonstrated in Table 4, above, each utility reduced the test year labor cost by a much smaller amount of directly allocated (or capitalized) rate case cost than is included within the Companies’ asserted rate case expense. As a result, consumers will pay the same salaries twice: once through operating expenses and again through rate case expense recoveries. See AG Ex. 1.0 at 23. This unfairly burdens small systems with rate case costs that dwarf its ordinary operating expenses.

The AG requested that the Commission remove \$537, 826 in total from operating expenses shown on Co. Exhibit 3.1, page 8, and add in \$13,947 as shown in the table above to fairly and accurately reflect rate case expense.

Companies' Position

In response to Staff's recommendations, the Companies updated its rate case expense estimate and revised proposed travel costs per Company in rate case expense. Staff also recommended that the Companies provide several of its data request responses for the record in these cases. The Companies agreed and provided exhibits in support of the justness and reasonableness of its rate case expense request.

Commission Analysis and Conclusion

After reviewing the records, we disagree with the AG that the rate case expenses are included twice by the Companies. Therefore, the Commission finds the amounts of compensation for attorneys and technical experts to prepare and litigate this proceeding, as adjusted by Staff, are just and reasonable pursuant to Section 9-229 of the Act, 220 ILCS 5/9-229.

The total unamortized rate case expense in the following amounts per Company are approved for recovery:

| | |
|--------------|---------------------------------------|
| Charmar | \$118,763 |
| Cherry Hill | \$115,807 |
| Clarendon | \$115,703 |
| Ferson Sewer | \$56,454 |
| Ferson Water | \$57,664 |
| Harbor Sewer | \$58,106 |
| Harbor Water | \$58,667 |
| Killarney | \$116,773 <u>\$115,398</u> |

C. Commission Conclusion on Operating Revenues, Expenses, and Income

As discussed above, the Commission declines to adopt the adjustments recommended by the Attorney General and finds that the adjustments to operating revenues, expenses (including taxes) and utility operating income proposed by Staff are supported by the evidence and should be adopted. The operating income statements for the Companies for the test year ended September 30, 2010 are shown in Appendices A, _____, and _ and summarized below:

CHARMAR

Water

| | |
|--------------------------|-----------------|
| Operating Revenues | \$90,250 |
| Operating Expenses | <u>\$66,699</u> |
| Utility Operating Income | \$23,551 |

Revenue Change \$65,192

CHERRY HILL

Water

| | |
|--------------------------|------------------|
| Operating Revenues | \$169,812 |
| Operating Expenses | <u>\$130,055</u> |
| Utility Operating Income | \$39,757 |

Revenue Change \$84,284

CLARENDON

Water

| | |
|--------------------------|------------------|
| Operating Revenues | \$226,458 |
| Operating Expenses | <u>\$174,287</u> |
| Utility Operating Income | \$52,171 |

Revenue Change \$131,942

KILLARNEY

Water

| | |
|--------------------------|------------------|
| Operating Revenues | \$206,271 |
| Operating Expenses | <u>\$158,104</u> |
| Utility Operating Income | \$48,167 |

Revenue Change \$139,370

FERSON

Sewer

| | |
|--------------------------|------------------|
| Operating Revenues | \$234,582 |
| Operating Expenses | <u>\$184,152</u> |
| Utility Operating Income | \$50,430 |

Revenue Change \$101,803

Water

| | |
|--------------------------|------------------|
| Operating Revenues | \$180,666 |
| Operating Expenses | <u>\$130,226</u> |
| Utility Operating Income | \$50,440 |
| Revenue Change | \$81,951 |

HARBOR**Sewer**

| | |
|--------------------------|-----------------|
| Operating Revenues | \$64,685 |
| Operating Expenses | <u>\$59,485</u> |
| Utility Operating Income | \$5,200 |
| Revenue Change | \$32,896 |

Water

| | |
|--------------------------|------------------|
| Operating Revenues | \$141,594 |
| Operating Expenses | <u>\$105,530</u> |
| Utility Operating Income | \$36,064 |
| Revenue Change | \$63,890 |

VI. Rate of Return**A. Capital Structure**

Because the Companies are wholly owned subsidiaries of UI, Staff proposed using UI's capital structure for the year ending September 30, 2010. The capital structure is summarized below:

| <u>Component</u> | <u>Ratio</u> |
|------------------|---------------|
| Short term debt | 1.19% |
| Long term debt | 49.54% |
| Common Equity | <u>49.27%</u> |
| Total | 100.00% |

B. Cost of Debt

Staff estimated that the Companies' cost of short-term debt is 3.08%. The Companies' embedded cost of long-term debt is 6.65%.

C. Cost of Common Equity

Staff recommended a 9.43% cost of common equity for the Companies. Staff measured the investor-required rate of return for UI with the discounted cash flow ("DCF") and risk premium models. DCF and risk premium models cannot be directly applied to UI because its stock is not market-traded. Therefore, Staff applied those models to water utility and public utility samples deemed comparable in risk to the Companies.

1. DCF Analysis

DCF analysis assumes that the market value of common stock equals the present value of the expected stream of future dividend payments to the holders of that stock. Since a DCF model incorporates time-sensitive valuation factors, it must correctly reflect the timing of the dividend payments that a stock price embodies. The companies in Staff's water and utility samples pay dividends quarterly. Staff therefore employed a non-constant-growth DCF ("NCD CF") model that reflects a quarterly frequency in dividend payments.

Staff used the NCD CF model in this proceeding because the level of growth indicated by the average 3-5 year growth rates for the Water and Utility samples is not sustainable over the long-term. The growth rate estimates were combined with the closing stock prices and dividend data as of September 29, 2011. Based on these growth assumptions, stock price and dividend data, Staff's NCD CF estimate of the cost of common equity was 8.84% for the water sample and 9.25% for the utility sample.

2. Risk Premium Analysis

According to financial theory, the required rate of return for a given security equals the risk-free rate of return plus a risk premium associated with that security. Staff used a one-factor risk premium model, the Capital Asset Pricing Model ("CAPM"), to estimate the cost of common equity.

The CAPM requires the estimation of three parameters: beta, the risk-free rate and the required rate of return on the market. For the beta parameter, Staff combined adjusted betas from Value Line, Zacks and a regression analysis to estimate the beta of the water and utility sample. For the water sample, the average Value Line, Zacks and regression beta estimates were 0.70, 0.57 and 0.54, respectively. For the utility sample,

the average Value Line, Zacks and regression beta estimates were 0.75, 0.77 and 0.72, respectively. The Value Line regression employs weekly observations of stock return data while both the regression beta and Zacks betas employ monthly observations. Since the Zacks beta estimate and the regression beta estimate are calculated using monthly data rather than weekly data (as Value Line uses), Staff averaged those results to avoid over-weighting betas estimated from monthly data in comparison to the weekly data-derived Value Line betas. Staff then averaged the resulting monthly beta with the Value Line weekly beta, which produced a beta of 0.63 for the water sample and 0.75 for the utility sample.

For the risk-free rate parameter, Staff considered the -0.01% yield on four-week U.S. Treasury bills and the 3.05% yield on thirty-year U.S. Treasury bonds. Both estimates were measured as of September 29, 2011. Forecasts of long-term inflation and the real risk-free rate imply that the long-term risk-free rate is between 4.3% and 5.5%. Staff concluded that the U.S. T-bond yield is currently the superior proxy for the long-term risk-free rate.

Finally, for the expected rate of return on the market parameter, Staff conducted a DCF analysis on the firms composing the S&P 500 Index. That analysis estimated that the expected rate of return on the market was 12.86% for the second quarter of 2011. Inputting those three parameters into the CAPM, Staff calculated a cost of common equity estimate of 9.23% for the water sample and 10.41% for the utility sample.

3. Staff Cost of Equity Recommendation

Staff estimated the investor-required rate of return on common equity for the two samples from the results of the NDCDF and risk premium analyses for the samples. The average investor required rate of return on common equity for the Water sample, 9.04%, is based on the average of the DCF-derived results (8.84%) and the risk premium-derived results (9.23%). The average investor required rate of return on common equity for the Utility sample, 9.83%, is based on the average of the DCF-derived results (9.25%) and the risk premium-derived results (10.41%). The investor required rate of return on common equity for the Companies, 9.43%, is based on the average for the water and utility samples

4. AG Cost of Equity Recommendation

The AG argued that the allowed return on common equity for the Companies should be reduced by no less than 100 basis points from the 9.43% agreed upon by Staff and the Companies to reflect the poor management shown by the high rate increases proposed and other consumer complaints.

As the AG argued in their Initial Brief and as demonstrated in the Staff's Initial Brief, the Staff recommended return on equity, or ROE, did not take into account specific factors related to these Companies, such as the size of the requested increases, rate shock, or the length of time since the last rate case. (People's Initial Brief at 12, 16; Staff Initial Brief at 17-22.) The Staff's analysis, accepted by the Companies, leaves it to the Commission to make an adjustment to link management weaknesses to the ROE determined through the DCF and CAPM analyses. Rather than adopt an ROE that might be appropriate for utilities that have been operated reasonably and at rates that have kept pace with their costs, the Commission should recognize the extraordinary burden these extraordinarily large increases will place on the public and reduce the profit received by shareholders to reflect this management deficiency. Accordingly, the AG requests that the ROE be set at no more than 8.035% and that the weighted cost of capital be set at 7.30%, as indicated in the People's Initial Brief at 16.

Companies Position

The Commission recently considered and rejected very similar arguments made by the AG in the recent consolidated rate cases (Ill.C.C. Doc. 11-0059/11-0141 and 11-0142 Consolidated) filed by three other Illinois water and sewer utilities owned by Utilities, Inc. The Attorney General failed to provide a cost of equity expert witness. The Companies ask the Commission to find that the AG's recommendation is inconsistent with the reasonable standards by which the rate of return must be established.

Commission Analysis and Conclusions

The Commission finds no authority to support the recommendations of the Attorney General and it is rejected. Having reviewed the record, the Commission finds that the Companies should be authorized to earn a rate of return of 7.98% as recommended by Staff. The rate of return incorporates a return on common equity of 9.43%. The Companies' rate of return was derived as follows:

| <u>Source of capital</u> | <u>Amount</u> | <u>Percentage</u> | <u>Cost</u> | <u>Weighted Cost</u> |
|--------------------------|----------------------|-------------------|--------------|----------------------|
| Short-term debt | \$4,242,247 | 1.19% | 3.08% | 0.04% |
| Long-term debt | \$176,919,657 | 49.54% | 6.65% | 3.30% |
| Common Equity | <u>\$175,968,943</u> | <u>49.27%</u> | <u>9.43%</u> | <u>4.64%</u> |
| Total | \$357,130,846 | 100.00% | | 7.98% |

VII. COSS/Rate Design/Tariff Terms

A. COSS

Staff agreed with the Companies' concern that conducting a COSS would be too expensive for ratepayers because the cost would have to be allocated over a small number of customers, resulting in a significant adverse impact on customer bills. Thus, Staff concluded that it would not be in the best interests of the customers to incur the expense of a COSS. However, Staff suggested that there could be a feasible and less-costly COSS alternative that Staff and UI could jointly develop for use in future rate case filings that would be more transparent and cost-based than the method used by UI in this proceeding. (Staff Exs. 4.0, p. 9 and 5.0, pp. 8 – 9.)

The Companies agreed to work with Staff to develop a COSS, however, the Companies did not agree that it should be six months prior to the next rate case. UI claimed that the time frame was unrealistic as a decision to file a rate case may occur less than six months prior to filing. (UI Ex. 2.0, p. 21)

Staff explained in Rebuttal Testimony that the COSS workshop parties would not necessarily reach a consensus on all outstanding issues, but could provide a good starting point for resolving differences and improving the accuracy of future COSSs upon which future rates could be set. Staff revised its recommendation that such a workshop should be completed within six months commencing from the date of the Final Order in this proceeding. Adoption of Staff's proposal would allow a maximum of six months to complete the workshop process. (Staff Ex. 11.0, pp. 4 – 5.)

In Surrebuttal Testimony, the Companies again only partly agreed with Staff to develop and streamline a procedure or process for a COSS. Companies witness Georgiev stated the terms of Staff's recommendations were unclear to the Companies. UI stated they are willing to review any schedules that Staff had developed related to a streamlined COSS to use in future filings. The Companies did not believe the deadline for completion of the workshop should be ordered by the Commission in this docket, but rather the deadline should be a subject of the workshop. (UI Ex. 5.0, p. 8)

Staff asserted that a deadline must be ordered by the Commission to ensure that the task is accomplished and steps are taken to move the Companies toward cost based rates. (Staff IB, p. 24) Specific rates will not be identified in the workshop but parties should reach an agreed format for a COSS and a method for the accounts to be maintained so the COSS inputs are useful in setting future rates for UI. Staff's final recommendations are the following:

1. The Commission order UI to work with Staff to review and analyze UI's current method of cost of service and rate design methodology;

2. The Commission order UI to develop a COSS with Staff for use in future UI rate cases; and

3. The Commission order that such review and analysis should be completed within six months from the date of the Final Order.

The Commission orders UI to work with Staff to review and analyze UI's current method of cost of service and rate design methodology. UI should develop a COSS with Staff for use in future UI rate cases. The review and analysis should be completed within six months from the date of this Order.

A.B. Rate Design and Billing Cycle

Staff agreed with the Companies' water rate design proposals to recover a greater percentage of the revenue requirement from the Usage Charge so that customers are more able to control their monthly bill by adjusting their usage to match their budget. However, since there is no COSS provided as a basis for rates in this case, Staff recommended the Commission set the rates based on AWWA Meter Factors and Staff's proposed revenue requirement. (Staff IB, pg. 25).

With respect to the proposed sewer rates, Staff accepted the proposed flat fee rate structure utilized by the Companies which included a separate sewer rate for customers using less than 1,000 gallons of water in a billing period. Also, Staff recommended that the Commission approve the Companies' proposed low usage rate to comply with the requirement of Section 8-306(h) of the Public Utilities Act ("Act") to establish a sewer rate applicable to customers who use less than 1,000 gallons of water in any billing period. (Staff IB, p. 26.)

Furthermore, Staff argued that the Companies' rates do not comply with Sec. 8-306(i) of the Act, which mandates that the Company "must offer a separate meter to measure each service." (*Id.*) Although there are no existing customers with separate meters, and no data is currently available to calculate separate rates, Staff recommended that the Commission order the Companies to revisit the Section 8-306(i) issue again in its next rate relief request. Without a rate that complies with this section of the Act, any customer who may install, or who may want to install, a separate meter will be deprived of the opportunity to have a lower sewer bill for the amount of water that does not flow through the sewer system. (*Id.*)

The Commission observes that the Companies agreed to submit tariff language for separate meters for water and sewer service in their next rate case in order to comply with Sec. 8-306(i). (*Id.*) For this reason we find that the Companies are in agreement with Staff's recommendation and should revisit the Section 8-306(i) issue again in its next rate relief request.

The Commission finds the development and design of the water and sewer rates in the manner recommended by Staff is reasonable and is accepted.

B.C. Miscellaneous

1. Miscellaneous Fees and Charges

Staff and the Companies agreed on all changes to the miscellaneous charges and tariff sheets. These changes are consistent with changes approved for other Utilities, Inc. companies in recent dockets and include: (Staff Ex. 4.0, pp. 22 – 43)

- NSF Check Charge increase to \$25;
- New Customer Charge increase to \$25;
- Reconnection Charge increase to \$37.50;
- Establish an After Hour Call-Out Charge at \$106 minimum;
- Establish an Annual Gross Revenue Tax equal to 0.1%;
- Ensure all Companies are on a monthly billing cycle;
- Ensure all Companies have a specific Bill Form on file as a tariff sheet
- Update all tariff sheets to a uniform and standard presentation;
- Remove Rider 1 from Charmar, Cherry Hill, Clarendon, Killarney and Ferson;
- Correct other minor inconsistencies with the tariffs

The Commission approves the changes to the miscellaneous charges and tariff sheets as agreed to by Staff and the Companies.

2. Affiliated Interest and HomeServe USA

Staff's rebuttal testimony raised concerns regarding a marketing agreement between WSC ~~an affiliate of the Companies~~ and HomeServe USA ("Home"). In its surrebuttal testimony, the Companies did not oppose adjustments proposed by Staff to reduce the Companies' revenue requirements by amounts attributable to payments received by its affiliate, ~~Water Services Corp. ("WSC")~~ from ~~HomeServe USA ("Home")~~ as a result of customers enrolling in Home's service repair plans. The Companies also agreed with Staff's recommendation for a proceeding to modify the affiliated interest agreement ("AIA") approved in Docket 08-0335 to address Staff's concerns.

The Companies opposed Staff's recommendation that the Commission find the Companies violated the ~~Public Utilities~~ Act by permitting WSC enter into the marketing agreement with Home. The Companies argued that Staff's recommendation amounted to a misdirected attempt to hold the Companies to the requirement of a provision that has been included in affiliated interest agreements approved by the Commission for

other Illinois utilities, but that was not included in the affiliated interest agreement that the Commission had approved for the Companies.

For the purposes of these rate proceedings, the Commission finds that the issues raised by Staff related to the HomeServe transaction have been satisfactorily addressed by the Companies' concessions to reduce its revenue requirements by the amount of HomeServe payments and to participate in a proceeding to address modification of the ~~Affiliated Interest Agreement~~AIA applicable to all ~~Utility, Inc. UI~~ affiliates operating in Illinois. However, the Commission agrees with the Companies that this rate case is not the preferred forum to address those issues because not all Utilities Inc. utilities are parties to this case. Therefore, the Commission declines to approve Staff's proposal to make a finding in this proceeding that the Companies have violated the ~~Public Utilities Act~~. However, the Commission is concerned that the Companies did not propose to share HomeServe revenues with utility ratepayers. Therefore, the Commission directs all Utilities Inc. utilities within Illinois to jointly file a petition within 90 days of the date of this Order to provide the Commission with testimony regarding whether the existing Affiliated Interest Agreement properly balances ratepayer and shareholder interests, protects ratepayer privacy, and is in the public interest. In addition, the Companies will include in that filing either the existing Affiliated Interest Agreement for re-approval or propose a new agreement, which they believe to be in the public interest for approval.

C.D. Rules, Regulations, and Conditions of Service Tariffs

~~Utilities, Inc. UI~~ witnesses Lena Georgiev and Dimitry Neyzelman proposed updated Rules, Regulations and Conditions of Service Tariffs for water and/or sewer service for the ~~Utilities, Inc. UI~~ Companies (Charmar Exhibit 1.0, p. 13; CHWC Exhibit 1.0, p. 12; CWC Exhibit 1.0, p. 12; CWC Exhibit 1.4; KWC Exhibit 1.0, p. 12; KWC Exhibit 1.4; FCUC Exhibit 1.0, p. 12; FCUC Exhibit 1.4; HRUI Exhibit 1.0, p. 13; Exhibit 3.2; and Exhibit 5.2).

Staff witnesses William H. Atwood Jr., William R. Johnson, Thomas Q. Smith, and Jonathan M. Sperry proposed some minor changes to the Companies' proposed Rules, Regulations and Conditions of Service Tariffs for water and/or sewer service. (ICC Staff Exhibit 6.0, p. 27; ICC Staff Exhibit 7.0, p. 5; ICC Staff Exhibit 8.0, p. 6; ICC Staff Exhibit 13.0, pp. 3-4; ICC Staff Exhibit 14.0, pp. 3-6; ICC Staff Exhibit 15.0, pp. 3-4; and ICC Staff Exhibit 16.0, pp. 5-7)

The Companies agreed with Staff's proposed changes and incorporated them into the proposed Rules, Regulations and Conditions of Service tariffs for water and/or sewer service filed with its Surrebuttal Testimony as Exhibit 5.2. (Exhibit 3.0, pp. 22-24; Exhibit 5.0, p. 3.)

The Commission finds that the Rules, Regulations and Conditions of Service Tariffs for water and/or sewer service identified as Company Exhibit 5.2 are hereby approved.

D.E. Additional Accounting Recommendations

Staff witness Ebrey recommended that the Order in this proceeding direct the Companies to: 1) book retirements from plant in service as they occur throughout each year; 2) within 60 days of the final order in these proceedings provide the actual journal entries made to record all retirements addressed and approved herein to the Manager of Accounting and file via e-docket (including those retirements ordered in prior rate cases); 3) within 6-months of final order provide a report to the Manager of Accounting and file the report via e-docket on the Companies' process for identifying the dollar amount to be associated with retirements that takes into account all factors related to the plant to be retired; and 4) complete the plant schedules as well as all other pages of ILCC Form 22 in their entirety and discontinue the shortcut method used in prior years' reports. (Staff Ex. 2.0, pp. 21-22.) The Companies agreed to these recommendations. (Company Ex. 3.0, p.9.) In surrebuttal testimony, the Companies further offered to clarify and analyze its tracking of small projects and retirement processes for small projects and include its finding and recommendations in the report described in 3) above to address the issue of capitalized labor ("cap time"). (Companies Ex. 5.0, p. 7)

The additional accounting recommendations as proposed by Staff are hereby approved by the Commission.

E.F. Rate Shock/Mitigation**AG's Position**

The increases requested by the Companies range from 77% to 208%. Although not addressed directly by the Companies, other than to point out that it have not requested rate increases for some years, the Staff witness testified that consumers "may experience rate shock" given the large increases requested. However, the Staff did not offer any methods to alleviate rate shock or make the increases more gradual. Only People's-AG's witness Brosch offered a rate phase-in plan to "make the transition to higher rates less drastic and sudden." AG Ex. 1.0 at 11. Mr. Brosch's proposal "would allow the Company to recover the portion of its ultimately authorized revenue requirements, the deferred expense amounts, through gradually increased rates." AG Ex. 2.0 at 13.

The AG supported a phase-in plan that would increase rates the larger of \$10 per month per year (equaling \$120 per year) or 20% of an average bill per year. Mr. Brosch testified that this approach is similar to the approach approved by the Commission for Commonwealth Edison ("ComEd") costs that increased by a much smaller amount, where the Commission limited the increase due to energy charges to 10% per year for three years. Order at 2, ICC Docket 06-0411 (Dec. 20, 2006). In Mr. Brosch's plan, each year the utility would defer for future recovery the amount of revenue that exceeds

these guidelines. AG Ex. 2.1 shows the application of the phase-in plan to each utility's requested (rebuttal) revenue requirement. In summary, the phase-in would take between 0 and 9 years, as shown below:

Table 7: Phase-in Schedule

| Utility Name | Percentage Increase | Number of Years for Phase-In |
|--------------|---------------------|------------------------------|
| Charmar | 284% | 9 years |
| Cherry Hill | 99% | 5 years |
| Clarendon | 140% | 7 years |
| Killarney | 208% | 7 years |
| Ferson Creek | W - 83% S- 77% | W- 5 years S- 5 years |
| Harbor Ridge | W-82% S-103% | W- 4 years S – 0 years |

Source: AG Ex. 2.0 at 6 & AG Ex. 2.1

The AG points out that the Commission and the Companies have tools available to them to alleviate rate shock when a utility seeks such large increases as in this case and that implementing a rate phase-in plan to spread rate increases over time is one effective tool to mitigate the effects of rate shock on consumers. As recently as December 21, 2011, the Commission ordered rehearing and directed UI and the parties in Docket 11-0059 consolidated, to address ways to alleviate the rate shock stemming from increases of 48% to 250%. Order on Rehearing (Dec. 21, 2011), ICC Docket 11-0059. Similarly, UI has been subject to phase-in plans in other states. As the People's AG's witness Brosch noted in his Rebuttal testimony, UI has been ordered to implement rate phase-in plans in both Tennessee and Maryland to address rate increases that were substantially smaller than the ones the utilities request in this docket. In Tennessee, the utilities requested an increase of 70%. AG Ex. 2.3 at 8. In Maryland, the utilities requested increases ranging from 38-47% for water services and 70% for sewer services. AG Ex. 2.2 at 2. The AG argues that the Commission should adopt Mr. Brosch's phase-in plan so that consumers can adjust to the higher rates gradually and without excessive financial disruption.

Staff's Position

The evidence in this proceeding demonstrates that Staff's proposed revenue requirement is just and reasonable and should be adopted. While Staff is mindful that the increases are not small, the Commission simply cannot deny a rate increase in its entirety because the resulting rates are deemed "too high" by one or more parties. The Commission must "consider the revenues and expenses of the utility." *BPI v. ICC*, 136 Ill. 2d 192, 219 (1989).

Staff, accordingly, continues to recommend that the Commission not adopt a rate mitigation plan at this time to mitigate the resulting rate increase from this proceeding.

The AG's plan, moreover, phases in the rate increase in over a four-year (Harbor Ridge) to nine-year (Charmar) period, deferring revenues that under traditional ratemaking would have been collected immediately and putting them off instead into the future. The evidence provided by the AG in this proceeding, while extensive, is nonetheless unpersuasive on the proposition that its proposed mitigation plan is beneficial to UI's customers in the long run. In general, Staff believes that the long term consequences of any phase-in plan are fiscally unsound. Any rate mitigation proposal adopted in this proceeding may in fact place undue future financial stress on ratepayers and also compromise the Companies' ability to make timely infrastructure investments to maintain a safe, adequate and reliable water or sewer system. The Commission should reject the AG's phase-in plan because it: (a) represents a fundamental departure from the Commission's reliance on cost-based rates development; (b) may not allow the Companies to timely recover its revenue requirement, which may result in a level of revenues insufficient to operate and maintain the Companies' water and sewer systems in a safe, adequate, and reliable manner; and (c) a customer who defers rate increases pays lower rates today at the cost of much higher rates in the future, particularly because they must pay back all deferred rate increases with interest.

In sum, the Commission is charged by the legislature with setting rates which are "just and reasonable" not only to the ratepayers but to the utility and its stockholders. A utility is entitled under the Act to recover its cost of providing utility service and earn a fair rate of return on assets used to provide such service. The record evidence supports the Companies' and Staff's position that the Companies cannot recover its costs of service under its current rates and that the rates proposed by Staff are necessary for the Companies to recover the costs incurred in meeting its public utility service obligations, including a reasonable rate of return on utility assets. The Commission is required to ensure fair treatment and to protect against any undue or sustained adverse impact on utility earnings.

In fact, Staff finds that the AG's plan inconsistent with the regulatory goals and objectives set forth by the General Assembly in the ~~Public Utilities Act~~ ("Act"). Specifically, Staff is concerned about the emphasis placed by the AG almost exclusively on UI customers by its phase-in plan. While Staff agrees that the Commission should consider fairness when making its determinations with regard to rate shock facing customers, the proper focus in this case should be on what is fair to *both* customers and the Companies, in light of the previously approved revenue requirement in this proceeding. In a recent 2007 North Shore Gas Company and Peoples Gas Light and Coke Company rate case, the Commission stated the following:

In the final analysis, we are simply unable to approve only those measures that benefit ratepayers and wholly ignore what the impacts of these benefits will have on the Utilities. To do so could well be unlawful as this Commission is put to the obligation of balancing both the interests of consumers and the interests of the Utilities. See BPI, 146 Ill. 2d 175, 208 (1991) (stating that the

Commission is charged with setting rates which are just and reasonable not only to the ratepayers but to the utility and its shareholders).

Order, Docket Nos. 07-0241/07-0242 (Cons.), at 152 (emphasis added).

Hence, the Commission must weigh the evidence and arguments from both sides and determine a reasonable and fair outcome.

Nevertheless, should the Commission conclude that some form of a rate mitigation plan be implemented in this proceeding, Staff respectfully requests the Commission to consider the following:

- a. Participation in any rate mitigation plan should be voluntary, where customers can decide whether to opt in to partake in the program or pay now and avoid paying much higher rates in the future. The AG does not oppose this idea. (AG IB, p. 25)
- b. Although the AG's rate mitigation plan may reduce rate shock in the deferral period, the AG's plan creates very high future rate impacts when deferrals must be repaid. Therefore, in order to reduce the deferrals individual customers must repay in future years, Staff recommends the Commission to set much higher phase-in annual rate caps thereby considerably shortening the deferral period.
- c. Even if the Commission considers and adopts a rate mitigation proposal in these proceedings, there should be nothing to prevent any party, Staff, and even the Commission from considering a new or different proposal in the Companies' next delivery service rate cases.

In contrast to the unfair and customer skewed AG proposed phase-in plan in this proceeding, a phase-in plan mindful of the factors above,¹ may diminish the effects of rate shock on UI customers, while being more balanced to both UI and its customers.

Companies' Position

¹ In fact, in Docket Nos. 11-0059 (Cons.), the Commission ordered rehearing and directed UI and the parties to address ways to alleviate the rate shock. (Order on Rehearing, Dec. 21, 2011.) Although Staff's primary recommendation on rehearing was for the Commission to keep the approved revenue requirement and corresponding rates intact, Staff did provide the Commission with an alternative phase-in plan to mitigate rates. Staff's suggestions (a) through (c) provided for Commission's consideration in the reply brief stage of this proceeding mirror certain elements proposed by Staff's in its alternative plan in Docket Nos. 11-0059 (Cons.) on rehearing.

The Companies agrees with Staff's position that the Commission should decline to approve the ~~Attorney General~~AG's proposal to phase-in the rates currently necessary to recover the proven costs of providing water and sewer utility services. According to the Companies, the ~~Attorney General~~AG's proposal represents an unlawful, fiscally unsound and detrimental policy. Under the ~~Attorney General~~AG's proposal, in a future proceeding the Commission could revisit the recovery of the revenue requirement that the Commission had previously found to be just and reasonable. The backward-looking adjustment of rates is equivalent to a reduction of revenues previously approved for a prior period and violates the prohibition against retroactive ratemaking. The Companies further assert the AG's proposal is confiscatory because it would not allow the Companies to recover its cost of capital, which the undisputed evidence in this case shows is 7.98%. To pay for the costs of providing utility services found to be reasonable and necessary, shareholders must advance the cash shortfall that below-cost, phased-in rates would generate. The AG would only allow carrying charges at the below-market rate of 6.65% on the cash working capital provided to fund the shortfall.

The Companies stated that it depends on the rates to meet all the financial obligations to provide service. If the new rates cannot be fully collected, the Companies would be faced with immediate decisions about matters such as where to cut back on system repairs, maintenance, replacements and upgrades needed to maintain service quality and minimize interruptions. Such measures will cause service degradation and increase the costs of bringing the system back to standard at a later time. The Companies expressed the concern that a phase-in plan would increase both the amount and age of unpaid receivables, which will place additional burdens on customers who pay their utility bills. Another flaw cited by the Companies was that phased-in rates by its nature are below the cost of service and below-cost rates encourage inefficient consumption of water and sewer service. In that regard, the Companies maintained that Intergenerational inequities result from charging below-cost rates to current customers resulting in shortfalls that are repaid by future customers so that future customers effectively subsidize consumption by current customers.

The Companies were also opposed to a phase-in proposal because it fails to provide for the recovery of the additional costs that will be incurred to administer the program. The costs for altering the billing system, educating customers about the different billing options and responding to inquiries will divert funds needed to pay other costs of providing utility services, or require further rate relief to continue those services. The Companies urged the Commission not to implement a phase-in plan because it effectively makes "loans" to customers to pay current expenses, which will lead to even higher expenses in future periods. In the future when additional revenue is needed to keep pace with inflation, new regulatory requirements and replacement of aging infrastructure, rate relief will be "pancaked" on top of the deferred recovery of past costs. Allowing current customers to avoid the reality of the cost to provide utility service provides a temporary false sense of relief that will make rate decisions even more difficult and unpalatable in the future.

The Companies stated that its customer base consists almost entirely of residential customers, so it cannot rely on a commercial and industrial base to provide a revenue stream to finance current operations during a phase-in of rates for residential customers. According to the Companies, the circumstances underlying the ~~Commonwealth Edison~~ (“ComEd”) rate moderation plan cited by the ~~Attorney General~~AG are not comparable. ComEd has an automatic adjustment rider that enables it to recover increases in uncollectible expenses on a more timely basis than a traditional rate case filing. In addition, ComEd’s rates are periodically adjusted to recover its energy costs without filing a rate case.

In the Companies view, the ~~Attorney General~~AG’s suggestion that the Companies should have filed for rate increases more frequently is not supported by the evidence, is short-sighted, unsupported by any case law or Commission decision and should be rejected as a basis for reducing or postponing the recovery of the Companies’ proven costs. The Companies maintain that the record contains no evidence to support a conclusion that more frequent rate cases would have been cost-justified in the past. For example, Charmar had a rate case as recently as 2004, yet as a result of recent developments it needed a large increase in rates to support a major infrastructure replacement, namely the retirement of its well and storage facilities and the need to interconnect its system with a nearby municipal system due to environmental regulations. Several of the other Companies needed rate relief to fund its recently completed or proposed water tank painting and rehabilitation projects. The Companies state it has limited resources to devote to the assembly, submission and defense of the data required to justify rate filings. To file more often would require additional personnel and outside assistance of costly professionals, the costs of which would be borne by customers. The rate case expense for more frequent filings could exceed the amount of revenue increase needed to cover the utility’s costs of providing service.

Commission Analysis and Conclusion

While the Commission is mindful of the size of the increases approved in this docket, there are just too many problems to this rate mitigation plan as suggested by the ~~Attorney General~~AG. Most of all the length of time for the phase in and the potential revenue short fall for the Companies providing necessary services. The Commission acknowledges that the increases are not small and economic conditions are difficult, the Commission cannot deny or postpone a rate increase because the resulting rates are deemed “too high” by one or more parties.

In ~~docket~~Docket No. 06-0411 the rate mitigation-/phase in plan that was ultimately approved by this Commission was proposed by the utility (ComEd). The ~~Attorney General~~AG opposed the plan at that time. Now they are asking the Commission to impose this plan over the utility’s objection. The ~~Attorney General~~AG’s proposal has not provided any viable solution to avoid or mitigate the rate impact faced by these customers. This plan is rejected.

A utility is entitled under the Act to recover its cost of providing utility service and earn a fair rate of return on assets used to provide such service. The record evidence supports the Companies' and Staff's position that the Companies' cannot recover its costs of service under its current rates. The rates proposed by Staff, and agreed to by the Companies, are necessary for the Companies to recover the costs incurred in meeting its public utility service obligations. Based on the Commission's review of the record, both the Companies and Staff considered the financial impact of the rates and made significant efforts to establish as low as possible rates. There is no legal basis for the Commission to delay this rate increase that reflects the cost of providing utility services.

F.G. Commission Analysis and Conclusions

The Commission finds the rate design principles, cost-of-service methodologies, the development and design of the rates in the manner as proposed by Staff and described in this section are reasonable and are adopted.

VIII. Findings and Ordering Paragraphs

The Commission, having given due consideration to the entire record herein and being fully advised in the premises, is of the opinion and finds that:

- (1) Charmor, Cherry Hill, Clarendon, Killarney, Ferson and Harbor provide water or water and sewer service within the State of Illinois and, as such, are public utilities within the meaning of the Act;
- (2) the Commission has jurisdiction over the Companies and the subject-matter herein;
- (3) the recitals of fact and conclusion reached in the prefatory portion of this Order are supported by the evidence and are hereby adopted as findings of fact;
- (4) a test year ending September 30, 2010 should be adopted for the purpose of this rate proceeding;
- (5) for the test year ending September 30, 2010 and for the purposes of this proceeding, the rate bases for the Companies are as follows:

| | |
|----------------------|-----------|
| Charmar – Water: | \$295,125 |
| Cherry Hill – Water: | \$498,213 |
| Clarendon – Water: | \$653,767 |
| Killarney – Water: | \$603,588 |
| Ferson – Water: | \$632,085 |
| Ferson – Sewer: | \$63,1969 |
| Harbor – Water: | \$451,925 |
| Harbor – Sewer: | \$65,159 |

- (6) the \$326,456 original cost of water plant for Charmar Water Company at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the water original costs of plant;
- (7) the \$402,961 original cost of water plant for Cherry Hill Water Company at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the water original costs of plant;
- (8) the \$702,376 original cost of water plant for Clarendon Water Company at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the water original costs of plant;
- (9) the \$627,242 original cost of water plant for Killarney Water Co-mpany at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the water original costs of plant;
- (10) the \$1,335,221 original cost of water plant for Ferson Creek Utilities Company at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the water original costs of plant;
- (11) the \$1,910,182 original cost of sewer plant for Ferson Creek Utilities Company at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the sewer original costs of plant;

- (12) the \$966,972 original cost of water plant for Harbor Ridge Utilities, Inc. at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the water original costs of plant;
- (13) the \$199,135 original cost of sewer plant for Harbor Ridge Utilities, Inc. at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the sewer original costs of plant;
- (14) a fair and reasonable rate of return on the Companies' rate bases is 7.98%; this rate of return reflects a fair and reasonable return on common equity of 9.43%; rates should be set to allow the Companies an opportunity to earn that rate of return on its rate base, as determined herein;
- (15) Staff's recommendations with respect to the rate design in this docket should be allowed;
- (16) the Companies' current rate tariffs should be permanently canceled and annulled as of the effective date of the new tariffs allowed in this Order;
- (17) the rates proposed by the Companies in this proceeding would produce rates in excess of that which is fair and reasonable; the Companies' proposed rates should be rejected and the design of the rates in the manner proposed by Staff is reasonable and should be adopted;
- (18) the Companies should be permitted to file new tariff sheets setting forth the rates designed to produce annual operating revenues as follows:

| | |
|----------------------|-----------|
| Charmar – Water: | \$90,250 |
| Cherry Hill – Water: | \$169,812 |
| Clarendon – Water: | \$226,458 |
| Killarney – Water: | \$206,271 |
| Ferson – Water: | \$180,666 |
| Ferson – Sewer: | \$234,582 |
| Harbor – Water | \$141,594 |

Harbor – Sewer: \$64,685

as such revenues are necessary to provide the Companies a rate of return of 7.98% on their rate bases, consistent with the findings herein; these tariff sheets shall be applicable to service furnished on or after the effective date;

- (19) the rates proposed by Staff that are contained in Section VII hereto are designed in accordance with the rate design determinations made in the prefatory portion of this Order herein above; the Companies should be authorized to file new tariffs setting forth the rates and charges contained in Section VII, effective for all service rendered on and after five (5) business days after filing, with the tariff sheets to be corrected within that time period, if necessary, except as is otherwise required by Section 9-201(b) of the Act as amended;
- (20) the proposed water and sewer depreciation rates ~~by Staff~~ (Identified in ICC Staff Ex. 6.0, Schedules 6.01 CWC, 6.01 KWC, 6.01 FCUC-W, 6.01 HRUI-W, 6.01 FCUC-~~SW~~ and 6.01 HRUI-~~SW~~) are approved;
- (21) the Companies shall otherwise perform all actions that this Order requires of it;
- (22) the proposed Rules, Regulations, and Conditions of Service tariffs for water and sewer service proposed by Staff and accepted by the Companies are approved;
- (23) all motions, petitions, objections, and other matters in this proceeding which remain unresolved should be disposed of consistent with the conclusions herein;
- (24) The Commission finds that the amounts of compensation for attorneys and technical experts to prepare and litigate this proceeding, as adjusted by Staff, are just and reasonable pursuant to Section 9-229 of the Public Utilities Act (220 ILCS 5/9-229); total unamortized rate case expense in the following amounts per Company are approved for recovery:

Charmar – Water: \$118,763

Cherry Hill – Water: \$115,807

Clarendon – Water: \$115,703

| | |
|-------------------|-----------|
| Ferson – Sewer | \$ 56,454 |
| Ferson – Water | \$ 57,664 |
| Harbor – Sewer | \$ 58,106 |
| Harbor – Water | \$ 58,667 |
| Killarney – Water | \$115,398 |

IT IS THEREFORE ORDERED by the Commission that the tariff sheets proposing a general increase in water and sewer rates filed by Charmar, Cherry Hill, Clarendon, Killarney, Ferson and Harbor on June 29, 2011 be, and the same are hereby, permanently canceled and annulled.

IT IS FURTHER ORDERED that the Companies file new tariffs within five (5) business days of the Order, with an effective date of not less than five (5) business days after the date of filing, except as otherwise authorized by Section 9-201(b) of the Act amended, for service rendered on and after their effective date, with individual tariff sheets to be corrected within that time period if necessary. The rates will be in accordance with Findings 18 and 20 above and Section VII herein. Said new tariff sheets shall cancel the tariff sheets presently in effect for, Charmar Water Company, Cherry Hill Water Company, Clarendon Water Company, Killarney Water Company, Ferson Creek Utilities Company and Harbor Ridge Utilities, Inc. with the cancellation date being the same as with the effective date of the new rate tariffs.

IT IS FURTHER ORDERED that the new rate tariffs include provisions for the collection of the Gross Revenue tax (also known as the Public Utility Fund tax) as a separate charge on customers' bills when the rates authorized in this docket go into effect. In conjunction with this change, the following language should be added to the Companies' tariffs:

ANNUAL GROSS REVENUE TAX RECOVERY CHARGE

Section 9-222 of "The Public Utilities Act," as amended, authorizes a utility to recover from its Customers its liabilities to the State of Illinois for Public Utility Annual Gross Revenue Tax imposed by Section 2-202 of "The Public Utilities Act," as amended. Pursuant to Section 9-222, the Company shall charge an Additional Charge for the Public Utility Annual Gross Revenue Tax equal to 0.1-% of all billings under this rate schedule except for (a) this Additional charge for Public Utility Annual Gross Revenue Tax, (b) the Additional Charge for any Municipal Utility Tax, and (c) any other billings and billing items excluded from the base of the Public Utility Annual Gross Revenue Tax.

IT IS FURTHER ORDERED that the \$326,456 original cost of water plant in service for Charmar Water Company at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the water original costs of plant.

IT IS FURTHER ORDERED that the \$402,961 original cost of water plant in service for Cherry Hill Water Company at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the water original costs of plant.

IT IS FURTHER ORDERED that the \$702,376 original cost of water plant in service for Clarendon Water Company at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the water original costs of plant.

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IT IS FURTHER ORDERED that the \$1,335,221 original cost of water plant in service for Ferson Creek Utilities Company at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the water original costs of plant.

IT IS FURTHER ORDERED that the \$1,910,182 original cost of sewer plant in service for Ferson Creek Utilities Company at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the sewer original costs of plant.

IT IS FURTHER ORDERED that the \$966,972 original cost of water plant in service for Harbor Ridge Utilities, Inc. at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the water original costs of plant.

IT IS FURTHER ORDERED that the \$199,135 original cost of sewer plant in service for Harbor Ridge Utilities, Inc. at December 31, 2009, as reflected on Staff Schedule 10.03, is unconditionally approved as the sewer original costs of plant.

IT IS FURTHER ORDERED that any petitions, objections or motions made in this proceeding, and not otherwise specifically disposed of herein, are hereby disposed of in a manner consistent with the conclusions contained herein.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code Sec. 200.880, this Order is final; it is not subject to the Administrative Review Law.

DATED:
BRIEFS ON EXCEPTIONS DUE:
REPLY BREIFS ON EXCEPTIONS DUE:

April 6, 2012
April 20, 2012
April, 27, 2012

Glennon P. Dolan
Administrative Law Judge